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New Zealand

Dairy and Products Annual

New Zealand Annual Dairy and Milk Supply Report

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Report Highlights:

Milk production continues to climb (22.1 million metric tons in 2015, 1.75% up on 2014) in the face of severe price drops both at international trade level and at the farm gate.

Executive Summary

Note: the Marketing Year (MY) is the same as the calendar year (CY)

Since early 2014 dairy farmers in New Zealand have witnessed a dramatic turnaround in the market situation and outlook for dairy. While milk supply from New Zealand is continuing its upward trend, and is now estimated at 21.7 million metric tons (MT) in 2014 (eight percent up on 2013) with a forecast production of 22.1 million MT in 2015, milk prices have weakened substantially. Dairy farmers received an average of NZ\$8.40/kg milk solids (MS) for the 2013/2014 season ended May 2014, but are now looking at a forecast payout for the 2014/2015 season of NZ\$5.30/kg MS or even lower. At these levels of payout it is projected 25% of farmers won't cover their farm working and debt servicing expenses in 2015.

The prime commodity produced by New Zealand milk processors, whole milk powder (WMP), accounts for approximately 49% of all dairy production from New Zealand. In 2014 1.41 million MT is forecast to be produced, 8.5% ahead of 2013. In 2015 WMP production is forecast at 1.45 million MT, three percent up on 2014. Indications are, while international WMP prices may be low now, they will be first among the dairy commodities to recover and processors in New Zealand want to be ready for that upswing. In addition the low prices will ultimately stimulate demand. Exports of WMP are forecast at 1.35 million MT and 1.42 million MT in 2014 and 2015 respectively.

While the skim milk powder (SMP) and butter production stream has been more valuable for most of 2014 it is the butter side of the equation which has been pulling the value along. Because of production constraints from the record peak milk flows in October 2014, SMP production, which entails quicker throughput in the factories, is likely to increase by six percent in 2014 to 430,000 MT but hold at that level in 2015. It is thought stocks will increase in 2014 limiting the calendar year growth for exports to 420,000 MT which would still be seven percent ahead of 2013. A run down in stocks in 2015 should see exports increase to 435,000 MT.

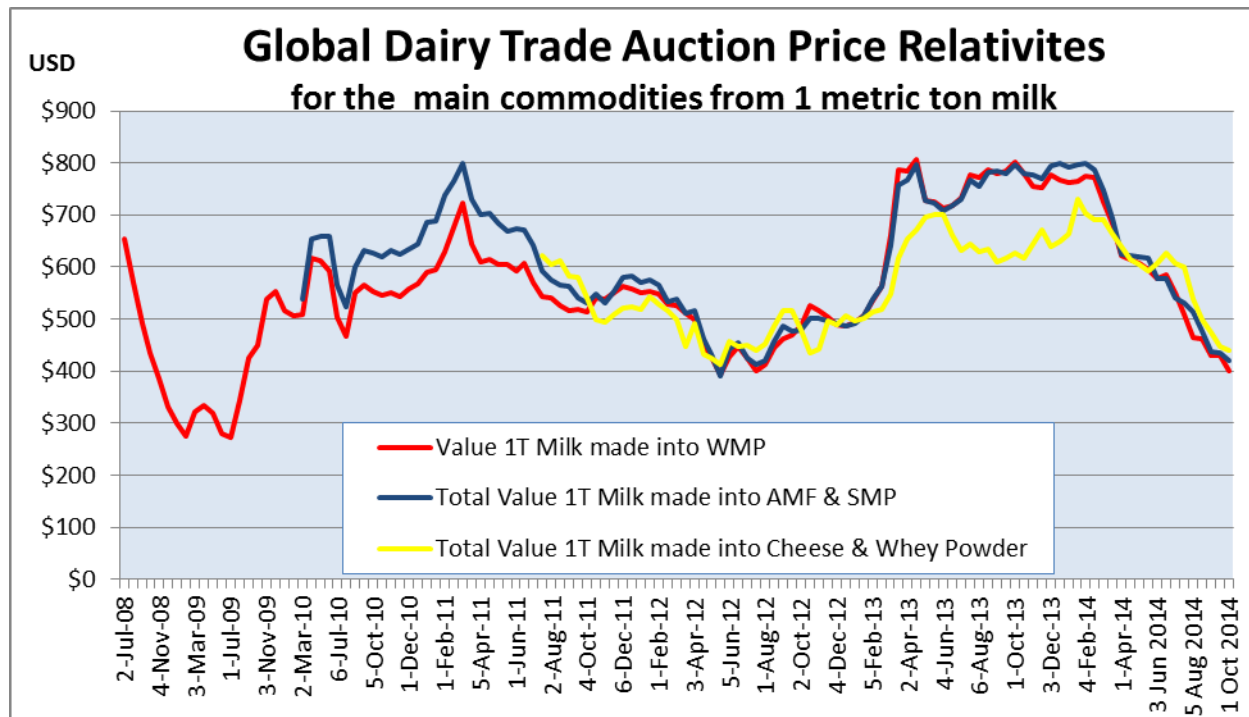
Butter exports are soaring at 17% ahead of 2013 on a year-to-date (YTD) basis. This pace is expected to slow in the last four months of the year but is still expected to reach a record 556,000 MT (10% over 2013) shipped from a production level of 570,000 MT. For 2015 it is expected butter exports will decline to a forecast 539,000 MT (3% reduction) from production of 570,000 MT.

Cheese production is forecast to be stable at 325,000 MT and 320,000 MT for 2014 and 2015 respectively. Exports are expected to decline by 2,000 MT in 2014 to 275,000 MT and then rise by five percent in 2015 to reach 289,000 MT on account of inventory changes.

Infant milk formula (IMF) exports once thought to be the key to adding value to dairy processing in New Zealand have disappointed over the last twelve months since the Whey Protein Concentrate 80 (WPC80) contamination incident broke and the tightening of the regulations in the Chinese market. On a YTD basis IMF exports in 2014 are expected to decline 38% at 35,000 MT in 2014 compared to 48,000 MT in 2013 and even this may be optimistic.

Impact of Low World Dairy Product Prices on New Zealand

World dairy prices in 2014 have declined dramatically. Over one million metric tons of dairy products are traded annually on the Global Dairy Trade (GDT) auction so it is a useful indicator of world prices. The GDT price index peaked in April 2013 at 1573 and hit a secondary peak in February, 2014 at 1482. Since then prices have plunged. As at October 1 the index had plumbed the depths at 762. This is a price index fall of 49% since February 2014 and 52% from the peak in April 2013.



GDT, GTA, Post estimates

Source:

The good times for dairy farmers have gone away. For the 2013/2014 production season (June 1, 2013 to May 31, 2014) farmers were paid a record of NZ\$8.40/kg of milk solids (MS). The payout for the 2014/2015 season is forecast by Fonterra at NZ\$5.30/kg MS. If export prices remain at their current levels even this forecast payout would be in jeopardy.

Nevertheless, the low price forecast for farmers' milk is unlikely to affect 2014 calendar year milk production. Farmers were well prepared for the 2014 spring (Aug-Nov) having spent money received in the previous financial year to purchase supplements ahead of the spring commencement of the new production season. In addition the spring weather so far has been conducive to pasture growth and dairy farmers are making the most of it at the moment.

It could be a different story in 2015 especially if there are drought conditions over a large proportion of the dairying areas during the first half of the calendar year. Farmers will be watching their expenditure very carefully and rather than purchase extra supplementary feed at a marginal cost that exceeds the marginal return they will adopt other measures such as drying cows off

early, selling cull cows early, and once a day milking to reduce feed demand which will also reduce milk production.

The impacts of the price downturn are likely to reverberate into the 2015/2016 production season, especially if forecast milk prices are not optimistic. Looking back over the last six to eight years the GDT price index revolves around a two to three year cycle whereas farmers milk solids payouts are on a three year cycle between price peaks. It is quite conceivable that any recovery in prices during 2014/15 will be minor and the 2015/16 milk solids payout won't be significantly greater than the payout in 2014/15. This will have farmers very concerned and expenditure will again be very tightly controlled. This will impact on the potential for milk supply growth in the spring of 2015.

The forecasts in this report for 2015 are predicated on the basis of an average summer-autumn rainfall total and a return to a NZ\$6.50/kg MS payout forecast for the production year 2015/16. The average payout since 2008 has been NZ\$6.66/kg MS.

Milk Supply 2014

Good spring pasture conditions occurring over the majority of New Zealand are boosting milk supply above 2013's record spring. Now 21.7 million metric tons (MT) of milk is forecast to be harvested in 2014 up 0.3 million MT or 2% from the previous Post forecast

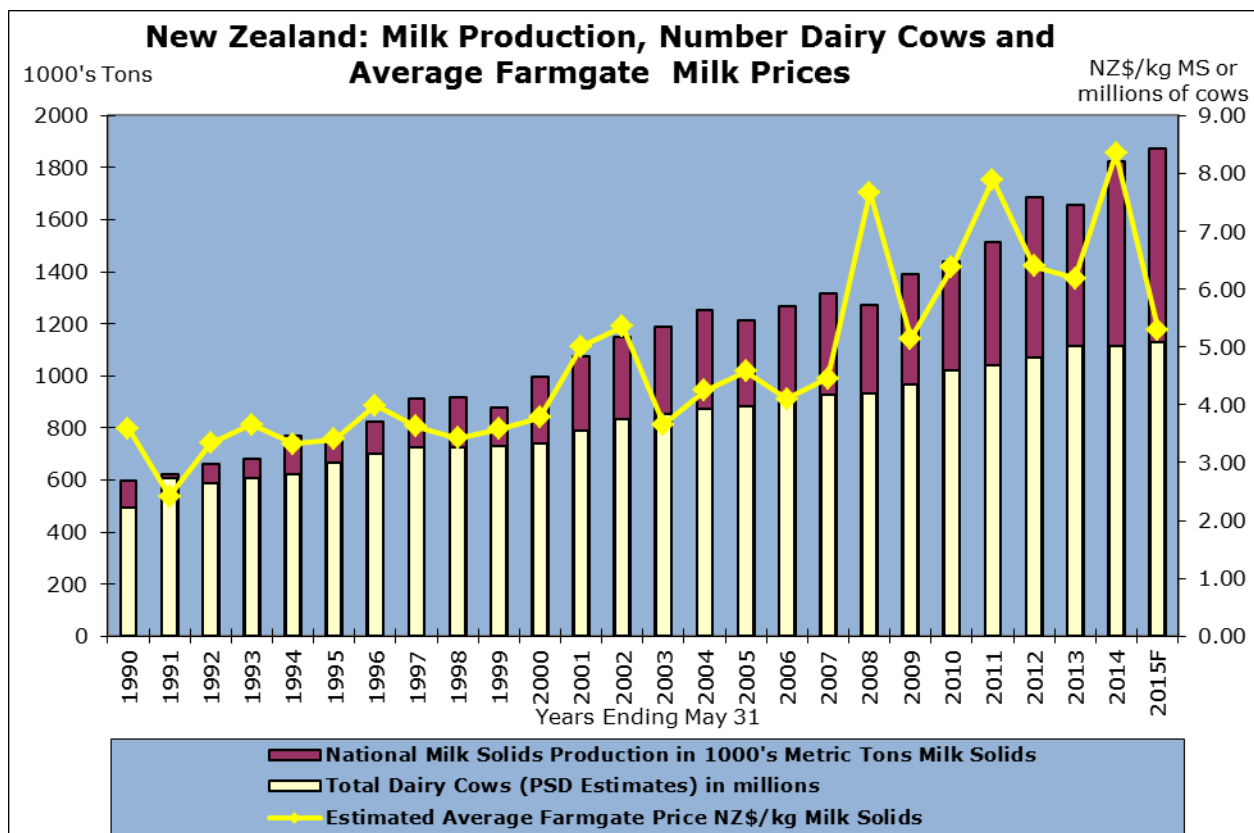
Cow numbers for 2014 are now estimated at 5.1 million head as a result of new survey data received. While this is a 1.6% (81,000 head) reduction from previous forecasts it is still 87,000 head (1.7%) greater than the number on hand in 2013.

It is estimated there were 100 conversions of cropland; sheep/beef pastureland; or forestry land to new dairy farms, which commenced production in August 2014. The combination of extra cows, a kind winter, good spring conditions and high levels of supplementary feed inventories are driving record July to October milk production levels. Imports of palm kernel extract, the prime imported dairy supplementary feed for New Zealand dairy farmers, are currently 39% above the year-to-date import volume that occurred in 2013. These imports are likely being financed by the surplus cash generated by the high milk payout for the 2013/14 production season.

Beyond these factors, a better level of management on farm during the spring, which has become the norm, has added to the enhanced productivity despite the weakening price scenario in New Zealand dairy.

Domestic Consumption Liquid Milk

Revised data for domestic consumption obtained by Post indicates that the new level of consumption shown in the PSD table of 495,000 MT is ten percent higher than had been previously reported.



Source:

Post, DairyNZ

Milk Supply 2015

Barring another drought during the January-April 2015 period, total milk production is forecast to reach 22.12 million MT in 2015. This would amount to a 1.75% advance on 2014 production levels. On the other hand, of the possibility of drought and the milk price downturn continuing in 2015 increase the downside risk in Post's production forecast.

Cow numbers are forecast to be up 0.9% at 5.14 million head in 2015. It is likely there will be a lower level of conversions (40 to 60 farms) from other land uses to dairy during 2015. In part this directly attributable to the milk price downturn and a lower level of confidence but also environmental constraints (most notably nitrate leaching limits) are starting to kick in. It is simply taking longer and costing more to get the necessary environmental consents and to build out the needed infrastructure to operate a new dairy farm in New Zealand. Productivity gains, including genetic improvement, suggest a 1.5% per annum increase in milk production. This is discounted to around 0.8% in 2015 because of the influence of the milk price downturn on farmers' management.

PSD Milk

Dairy, Milk, Fluid (1000HD, 1000MT)	2013			2014			2015	
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015	
New Zealand	Official	Old Post	New Post	Official	Old Post	New Post	Official	New Post
Cows In Milk	5103	5103	5005	5173	5173	5092		5137
Cows Milk Production	20200	20200	20200	21450	21350	21742		22120
Other Milk Production	0	0	0	0	0	0		0
Total Production	20200	20200	20200	21450	21350	21742		22120
Other Imports	1	1	1	1	1	1		1
Total Imports	1	1	1	1	1	1		1
Total Supply	20201	20201	20201	21451	21351	21743		22121
Other Exports	131	131	131	160	160	150		200
Total Exports	131	131	131	160	160	150		200
Fluid Use Dom. Consum.	450	450	450	450	450	494		495
Factory Use Consum.	19570	19570	19570	20791	20691	21049		21376
Feed Use Dom. Consum.	50	50	50	50	50	50		50
Total Dom. Consumption	20070	20070	20070	21291	21191	21593		21921
Total Distribution	20201	20201	20201	21451	21351	21743		22121
CY Imp. from U.S.	0	0	0	0	0	0		0
CY. Exp. to U.S.	0	0	0	0	0	0		0
TS=TD	0	0	0	0	0	0		0
(1000 Hd, 1000MT)								

Not official USDA estimates

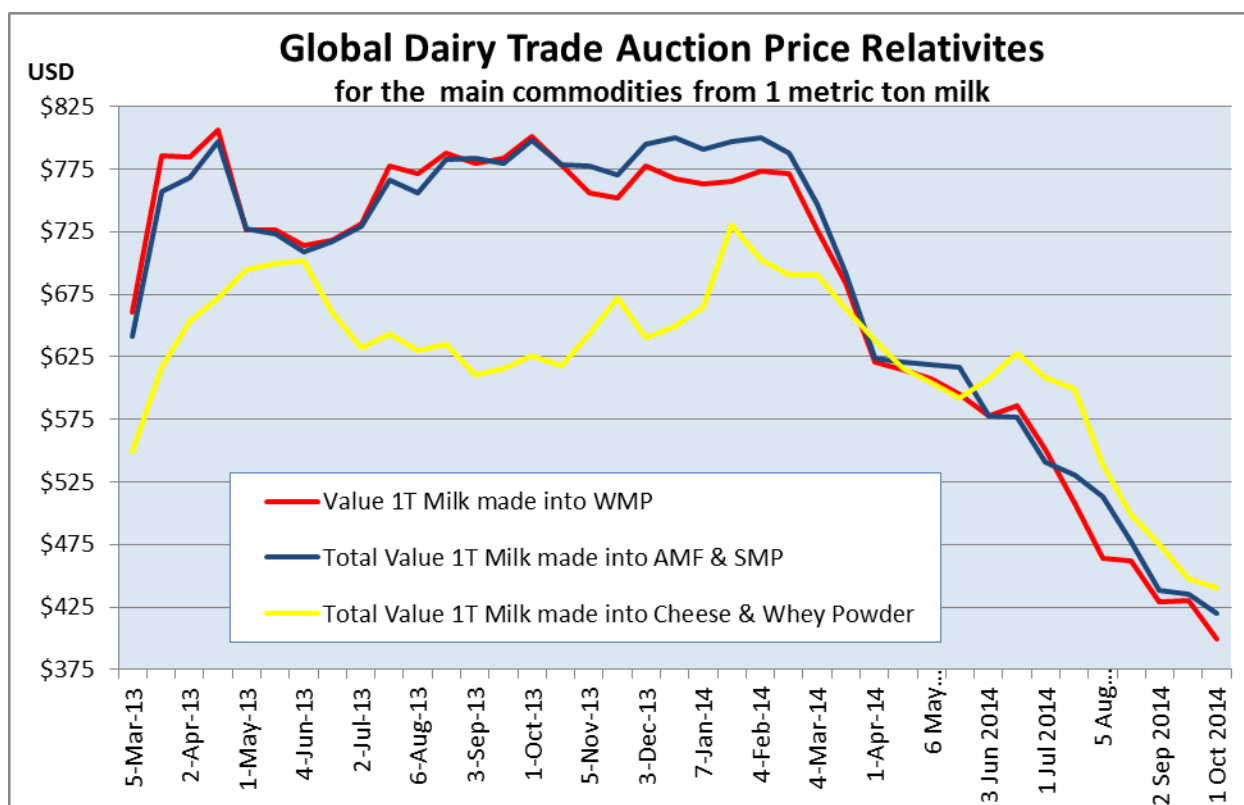
Dairy Production and Inventories

Whole Milk Powder (WMP)

2014

New Zealand Whole Milk Powder (WMP) production is now forecast to reach 1.41 million MT in 2014. This is 3% above our previous estimate and 8.5% above 2013.

As domestic consumption is only estimated at 1% of production, export demand and the forecast export prospects drive WMP production. Exports through August 2014 were a substantial 19% ahead of the same period in 2013 and documents on the Fonterra website suggest WMP production during December 2013 to May 2014 was up approximately 25% on a year-on-year basis. This would be broadly representative of the wider processing industry. It is assumed because New Zealand has a competitive advantage with WMP there will be no less WMP produced in H2 2014 than H2 2013. However it is forecast the inventories will grow by 43,000 MT partly because of the lack of demand for immediate shipping especially to China.



Source:

GDT, GTA, Post estimates

PSD

Dairy, Dry Whole Milk Powder New Zealand	2013			2014			2015	
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015	
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post
Beginning Stocks	161	161	161	157	157	157		200
Production	1,300	1,300	1,300	1,400	1,367	1,410		1,450
Other Imports	1	1	1	1	1	2		2
Total Imports	1	1	1	1	1	2		2
Total Supply	1,462	1,462	1,462	1,558	1,525	1,569		1,652
Other Exports	1,291	1,291	1,291	1,375	1,339	1,354		1,415
Total Exports	1,291	1,291	1,291	1,375	1,339	1,354		1,415
Human Dom. Cons.	2	2	2	2	2	2		2
Other Use, Losses	12	12	12	12	12	13		15
Total Dom. Cons.	14	14	14	14	14	15		17
Total Use	1,305	1,305	1,305	1,389	1,353	1,369		1,432
Ending Stocks	157	157	157	169	172	200		220
Total Distribution	1,462	1,462	1,462	1,558	1,525	1,569		1,652
CY Imp. from U.S.	0	0	0	0	0	0		

CY. Exp. to U.S.	3	2	2	0	2	0		0
TS=TD	0	0	0	0	0	0		0
(1000 MT)								

Not official USDA estimates

2015

Forecast total production in 2015 is projected to be 1.45 million MT which would be a 3% increase above 2014.

Even though the Butter/AMF and SMP powder stream has been slightly more valuable per ton of milk used for a large part of 2014, trade sources indicate that international prices for WMP will recover more quickly from the current downturn than the other main products such as SMP and cheese. So there will be no wholesale switch to SMP/fat production.

The extra productive capacity which has come on stream over the last 18 months will be used fully in 2015. Fonterra has commenced building two additional powder driers in the North Island which will go into production during 2016. This would increase capacity by somewhere between 200,000 to 300,000 MT per annum.

Skim Milk Powder (SMP)

PSD

Dairy, Milk, Nonfat Dry New Zealand (1000 MT)	2013 Market Year Begin: Jan 2013			2014 Market Year Begin: Jan 2014			2015 Market Year Begin: Jan 2015	
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post
Beginning Stocks	70	70	70	85	85	85		93
Production	409	409	404	425	425	430		430
Other Imports	2	2	5	2	2	2		2
Total Imports	2	2	5	2	2	2		2
Total Supply	481	481	481	512	512	517		525
Other Exports	392	392	392	425	425	420		435
Total Exports	392	392	392	425	425	420		435
Human Dom. Cons.	4	4	4	4	4	4		4
Other Use, Losses	0	0	0	0	0	0		0
Total Dom. Cons.	4	4	4	4	4	4		4
Total Use	396	396	396	429	429	424		439
Ending Stocks	85	85	85	83	83	93		86
Total Distribution	481	481	481	512	512	517		525
CY Imp. from U.S.	0	0		0	0			
CY. Exp. to U.S.	0	0		0	0			
TS=TD	0	0	0	0	0	0		0

Not official USDA estimates

2014

SMP production is now forecast at 430,000 MT for 2014 which is up by 1% from our last forecast and 6% greater than production in 2013. The SMP/AMF or butter product mix, also known as the SMP powder stream, has been more valuable per ton of milk for 12 of the 19 Global Dairy Trade auctions in 2014. However larger expected surpluses of milk worldwide over the next 12 months are expected to create a greater oversupply of SMP on world markets, delaying price recovery for longer than for WMP. It is forecast that stocks will increase by 8,000 MT as the rate of increase in sales isn't matching the forecast production growth.

2015

It is anticipated there will be no significant changes to NZ production in 2015. Consequently the SMP production volume is forecast to hold at the 2014 level of 430,000 MT. To some extent the demand for cream or fat products, which are the co-products of the SMP powder stream, will have an influence on the amount of SMP produced. Demand for cream or fat products is still reasonably strong, which will support SMP production. Even though global SMP markets are almost sure to be in oversupply during 2015, New Zealand has established customers with varying end uses, which includes Fonterra's own subsidiaries off-shore which further process SMP in to consumer products or small sachets.

Fat Products: Butter and Anhydrous Milkfat (AMF)

PSD

Dairy, Butter New Zealand	2013			2014			2015	
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015	
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post
Beginning Stocks	48	48	48	47	47	57		50
Production	525	525	535	540	540	570		570
Other Imports	1	1	1	1	1	1		1
Total Imports	1	1	1	1	1	1		1
Total Supply	574	574	584	588	588	628		621
Other Exports	505	505	505	516	516	556		539
Total Exports	505	505	505	516	516	556		539
Domestic Cons.	22	22	22	22	22	22		22
Total Use	527	527	527	538	538	578		561
Ending Stocks	47	47	57	50	50	50		60
Total Distribution	574	574	584	588	588	628		621
CY Imp. from U.S.	0	0	0	0	0	0		0
CY. Exp. to U.S.	30	30	30	30	30	30		30
TS=TD	0	0	0	0	0	0		0

Note AMF product weight tonnages are multiplied by 1.22 to get butter equivalents; not official USDA estimates

2014

Butter and AMF production in 2014 is forecast to increase seven percent over 2013 to reach 570,000 MT in butter equivalent. This is an upward revision of six percent from our previous forecast. The Butter/SMP powder stream has been more valuable per ton of milk than the WMP powder stream for much of 2014. Exports are up 15% year-on-year for the eight months ending August 2014. Additional exports have likely been generated by a combined 7,000 MT run down in inventories and the increased production.

2015

In butter equivalents production of butter and AMF is forecast to be 570,000 MT. This represents no change relative to 2014. AMF and especially butter have been in considerable demand during 2014. However with global supply of butter products likely to increase in 2015 it is likely that New Zealand processors will aim to consolidate their existing markets and not boost production.

Cheese

PSD

Dairy, Cheese New Zealand	2013			2014			2015	
	Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			Market Year Begin: Jan 2015	
(1000 MT)	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post
Beginning Stocks	50	50	50	50	50	50		67
Production	311	311	311	324	324	325		320
Other Imports	5	5	5	5	5	6		6
Total Imports	5	5	5	5	5	6		6
Total Supply	366	366	366	379	379	381		393
Other Exports	277	277	277	290	290	275		289
Total Exports	277	277	277	290	290	275		289
Human Dom. Cons.	39	39	39	39	39	39		39
Other Use, Losses	0	0	0	0	0	0		0
Total Dom. Cons.	39	39	39	39	39	39		39
Total Use	316	316	316	329	329	314		328
Ending Stocks	50	50	50	50	50	67		65
Total Distribution	366	366	366	379	379	381		393
CY Imp. from U.S.	0	1	1	0	1	1		1
CY. Exp. to U.S.	1	1	13	1	1	1		1
TS=TD	0	0	0	0	0	0		0

Not official USDA estimates

2014

Cheese production in 2014 is estimated at 325,000 MT just 1,000 MT above the previous forecast. Capacity at all milk processing sites in New Zealand will again be tight in the Southern Hemisphere Spring of 2014 during the peak milk flows. Consequently cheese making plants will be utilized fully

for a period during the spring which would indicate that similar volumes of cheese to past years will be produced. In addition financial gross margins for cheese have improved relative to the powder streams which will be more encouraging for cheese production than spring 2013 margins were.

Our forecast indicates an increase in inventories of 17,000 MT as shipment data indicate a slowdown in exports for the first 8 months of 2014.

2015

For 2015 cheese production is forecast to be 320,000 MT. This is a marginal decrease from 2014 of 1.5%. While there is a transition going on within cheese production from the traditional large blocks of cheddar to fresh cheeses (such as mozzarella, cream, & cottage) and customer ready packs of grated or sliced cheese, it is gradual and customer driven. Ultimately cheese production could increase significantly if the switch to fresh cheeses really takes hold.

Dairy Exports

Whole Milk Powder

New Zealand Export Statistics for Whole Milk Powder									
for Calendar Years: 2011 - 2013									
Partner Country	2011			2012			2013		
	Value millions USD	Quantity (metric tons)	FOB Price USD/T	Value millions USD	Quantity (metric tons)	FOB Price USD/T	Value millions USD	Quantity (metric tons)	FOB Price USD/T
China	1,096.96	302,261	3,629	1,371.08	423,435	3,238	2,759.17	622,133	4,435
UAE	261.05	67,700	3,856	316.30	91,893	3,442	311.69	76,635	4,067
Venezuela	361.59	90,078	4,014	349.12	92,807	3,762	307.59	67,312	4,570
Sri Lanka	241.72	64,398	3,754	195.74	56,927	3,438	171.78	45,339	3,789
Malaysia	146.13	38,218	3,824	144.58	41,703	3,467	148.43	36,829	4,030
Thailand	110.19	30,760	3,582	95.75	30,132	3,178	135.98	31,609	4,302
Singapore	123.59	36,634	3,374	88.35	30,635	2,884	129.47	35,123	3,686
Algeria	309.31	79,602	3,886	250.33	75,426	3,319	127.14	32,752	3,882
Nigeria	70.72	18,442	3,835	105.65	30,777	3,433	115.39	27,123	4,254
Taiwan	100.84	26,558	3,797	83.63	26,116	3,202	112.30	26,294	4,271
Rest of World	1,372.	354,981	3,86	1,292.	361,423	3,57	1,221.	290,309	4,20

	39		6	24		5	56		8
World Total	4,194.49	1,109,635	3,780	4,292.78	1,261,278	3,404	5,540.51	1,291,460	4,290

Source: GTA

For 2014 WMP exports are estimated to reach 1.35 million MT, a slight upward revision from the previous Post estimate and 5% ahead of exports in 2013. Exports as of August have surged ahead by 19% compared to the same period in 2013. This pace of shipping is likely to slow in the last four months of the year. Trade sources indicate that there are considerable un-sold stocks in China which is reducing Chinese demand for imports considerably. This is allowing the second tier purchasers back into the market at significantly reduced prices but it is thought that the increased purchasing by these countries won't be enough to counterbalance the Chinese reductions.

In 2015 it is forecast WMP exports will continue to grow by 4.5% to reach 1.42 million MT. It is anticipated demand in China will start to pick up and the low prices will stimulate demand in many markets.

New Zealand Export Statistics for Whole Milk Powder									
Year To Date: January - August									
Partner Country	2012			2013			2014		
	Value millions USD	Quantity (metric tons)	FOB Price USD/T	Value millions USD	Quantity (metric tons)	FOB Price USD/T	Value millions USD	Quantity (metric tons)	FOB Price USD/T
China	826.34	244,799	3,376	1,040.14	278,991	3,728	2,042.75	411,619	4,963
United Arab Emirates	236.73	65,757	3,600	190.81	52,635	3,625	352.43	72,626	4,853
Algeria	151.75	44,699	3,395	93.90	26,382	3,559	199.64	41,874	4,768
Sri Lanka	158.42	43,502	3,642	106.82	32,236	3,314	154.58	31,491	4,909
Malaysia	100.13	26,497	3,779	89.11	24,837	3,588	143.41	29,368	4,883
Saudi Arabia	84.76	23,846	3,554	61.78	17,573	3,515	132.42	27,291	4,852
Thailand	68.93	20,937	3,292	66.68	17,511	3,808	127.68	26,534	4,812
Nigeria	65.40	18,309	3,572	75.57	19,580	3,860	109.58	22,084	4,962
Indonesia	81.90	23,329	3,511	57.71	15,415	3,744	108.07	22,517	4,800
Taiwan	57.26	17,201	3,329	70.32	17,700	3,973	103.37	21,614	4,782
Rest of World	1,108.20	300,729	3,685	926.57	239,841	3,863	890.09	181,963	4,892
World Total	2,939.82	829,604	3,544	2,779.41	742,702	3,742	4,364.03	888,981	4,909

Source: GTA

Cheese

Cheese exports for the year-to-date (YTD), August 2014, are lagging (5%) behind the 2013 volume at the same date. It is now anticipated that by year end, 2014, cheese exports will reach 275,000 MT, 2,000 MT less than 2013. This revision is 5% less than the total projected last April. Traditional cheddar exports are down 9% for the YTD ostensibly explaining the lower rate of exports. However there has been no overall growth in fresh cheese exports which is disappointing but one major destination South Korea has reduced its imports of fresh cheese by 97% (9,600MT). Exporters have been successful in replacing South Korean buyers with new customers or ramping up volumes to existing purchasers.

For 2015 cheese exports are forecast at 289,000 MT, five percent up on 2014, which takes into account the increased fresh cheese capacity and a catch up in export shipments after the buildup in stocks over the previous twelve months. The global dairy supply and demand situation would suggest that trading channels will be awash with cheese over the next year from the Russian import ban and increased supplies of milk. Exporters here will be aiming to protect traditional cheddar markets and expand where practical with fresh cheese especially in to the Asian food service area.

New Zealand Export Statistics for Cheese									
for Calendar Years: 2011 - 2013									
Destination Country	2011			2012			2013		
	Value USD mil.	Quantity (MT)	Average FOB price/MT	Value USD mil.	Quantity (MT)	Average FOB price/MT	Value USD mil.	Quantity (MT)	Average FOB price/MT
Japan	255.72	61,175	\$4,180	250.87	64,754	\$3,874	263.09	64,296	\$4,092
Australia	206.54	46,471	\$4,445	183.36	45,619	\$4,019	166.47	37,661	\$4,420
China	57.48	13,536	\$4,247	76.48	17,852	\$4,284	96.86	21,367	\$4,533
Korea South	90.01	20,085	\$4,482	100.75	25,457	\$3,958	92.55	21,728	\$4,259
Philippines	42.71	10,186	\$4,193	45.79	12,545	\$3,650	46.15	11,729	\$3,935
Saudi Arabia	29.11	6,940	\$4,194	66.29	18,862	\$3,515	46.08	11,775	\$3,914
Indonesia	38.82	8,800	\$4,411	49.36	13,352	\$3,697	44.55	11,036	\$4,037
Chile	5.02	1,281	\$3,917	17.65	5,054	\$3,492	40.75	10,502	\$3,880
Taiwan	29.62	6,865	\$4,314	22.69	5,936	\$3,822	29.71	7,464	\$3,980
Egypt	22.35	5,990	\$3,732	35.96	10,361	\$3,471	29.00	7,527	\$3,852

Rest of World	302.60	71,533	\$4,230	328.93	85,854	\$3,831	301.83	71,800	\$4,204
World Total	1079.98	252,858	\$4,271	1178.12	305,647	\$3,855	1157.04	276,886	\$4,179

Source: GTA

New Zealand Cheese and Curd Export Statistics									
Year To Date: January - August									
Partner Country	2012			2013			2014		
	Value USD	Quantity (metric tons)	FOB Price USD /T	Value USD	Quantity (metric tons)	FOB Price USD /T	Value USD	Quantity (metric tons)	FOB Price USD /T
Japan	165,698,528	41,553	3,988	170,402,896	43,024	3,961	168,106,842	35,807	4,695
Australia	118,167,822	28,629	4,128	112,654,315	26,280	4,287	151,102,243	30,509	4,953
China	47,529,389	11,143	4,265	53,747,246	12,272	4,380	88,731,023	17,841	4,973
Saudi Arabia	45,662,775	12,828	3,560	32,068,061	8,503	3,771	35,609,008	7,823	4,552
Philippines	30,494,590	8,152	3,741	30,144,106	8,033	3,753	34,005,247	7,748	4,389
Indonesia	31,734,032	8,287	3,829	30,857,416	7,921	3,896	33,933,101	7,313	4,640
Korea South	63,401,270	15,599	4,064	68,714,225	16,502	4,164	33,227,672	6,760	4,915
Chile	9,538,319	2,409	3,959	22,515,452	6,045	3,725	32,614,759	7,309	4,462
Egypt	27,185,630	7,772	3,498	19,347,267	5,340	3,623	28,678,049	6,185	4,637
Trinidad & Tobago	14,516,638	3,317	4,376	18,548,059	4,138	4,482	26,283,523	4,849	5,420
Rest of World	208,518,168	52,503	3,972	202,611,146	50,939	3,978	226,203,060	47,105	4,802
World Total	762,447,161	192,189	3,967	761,610,188	188,998	4,030	858,494,528	179,248	4,789

Source: GTA

Skim Milk Powder (SMP)

The pace of SMP exports so far in 2014 hasn't been dramatic running at 8% behind 2013. As a result the anticipated total for 2014 has been reduced to 420,000 MT which is one percent less than had been previously forecast. This level is seven percent ahead of 2013 and may still be too optimistic.

For 2015 it is anticipate that stocks will be run down slightly allowing a four percent increase in exports to 435,000 MT.

New Zealand Export Statistics for Skim Milk Powder									
For Calendar Years: 2011 - 2013									
Destination Country	2011			2012			2013		
	Value USD mil.	Qty (MT)	Av. FOB Price/ MT	Value USD mil.	Qty (MT)	Av. FOB Price/ MT	Value USD mil.	Qty (MT)	Av. FOB Price/ MT
China	265.40	77,474	\$3,426	325.13	100,851	\$3,224	563.42	132,527	\$4,251
Malaysia	122.52	33,871	\$3,617	120.09	34,593	\$3,472	151.45	36,106	\$4,195
Philippines	118.69	33,712	\$3,521	99.24	30,738	\$3,229	146.08	34,958	\$4,179
Indonesia	84.66	23,524	\$3,599	118.97	37,413	\$3,180	137.92	33,780	\$4,083
Singapore	61.49	18,678	\$3,292	67.40	21,269	\$3,169	92.41	23,575	\$3,920
Thailand	99.94	29,899	\$3,343	67.52	22,545	\$2,995	64.62	15,816	\$4,086
Taiwan	43.00	11,962	\$3,595	39.13	12,055	\$3,246	62.56	14,841	\$4,216
Saudi Arabia	95.67	26,781	\$3,572	75.84	23,761	\$3,192	42.48	10,112	\$4,201
Vietnam	20.57	5,876	\$3,500	42.27	13,648	\$3,097	39.39	10,496	\$3,753
Japan	17.71	5,021	\$3,527	21.04	5,929	\$3,549	28.70	7,251	\$3,958
Rest of world	339.77	94,826	\$3,583	287.18	86,826	\$3,308	297.28	72,506	\$4,100
World Total	1,269.43	361,625	\$3,510	1,263.82	389,624	\$3,244	1,626.31	391,969	\$4,149

Source: GTA

New Zealand Export Statistics for Skim Milk Powder									
Year To Date: January - August									
Partner Country	2012			2013			2014		
	Value USD mil.	Qty (MT)	Av. FOB Price/ MT	Value USD mil.	Qty (MT)	Av. FOB Price/ MT	Value USD mil.	Qty (MT)	Av. FOB Price/ MT
China	217.575	65,918	\$3,301	239.512	62,875	\$3,809	323.749	69,093	\$4,686
Malaysia	80.952	21,595	\$3,749	99.722	25,060	\$3,979	95.594	19,756	\$4,839
Philippines	69.934	20,759	\$3,369	72.058	19,204	\$3,752	92.818	19,353	\$4,796
Indonesia	73.039	21,607	\$3,380	99.580	25,752	\$3,867	83.282	17,552	\$4,745
Singapore	48.266	14,872	\$3,245	64.431	17,472	\$3,688	72.176	16,561	\$4,358
Saudi Arabia	38.564	11,506	\$3,352	23.096	6,013	\$3,841	63.548	13,637	\$4,660
Taiwan	24.526	7,217	\$3,398	37.978	9,594	\$3,958	59.680	12,787	\$4,667
Thailand	31.52	9,973	\$3,161	37.74	9,890	\$3,817	47.804	10,56	\$4,526

	2			8				3	
Japan	13.00 5	3,747	\$3,471	23.59 3	6,139	\$3,843	37.977	7,862	\$4,830
UAE	6.011	1,777	\$3,383	16.08 8	4,092	\$3,932	25.036	5,611	\$4,462
Rest of world	170.0 17	50,06 7	\$3,396	213.2 61	56,08 7	\$3,802	144.083	29,83 1	\$4,830
World Total	773.4 11	229,0 33	\$3,377	927.0 66	242,1 75	\$3,828	1,045.7 48	222,6 03	\$4,698

Source: GTA

Butter and Anhydrous Milkfat (AMF) Exports

Butter and AMF exports, in 2014 reported in butter equivalents, are set to rise substantially to 556,000 MT. This is a ten percent increase over 2013 and an eight percent revision to the last forecast back in April. For 12 of the 19 GDT auctions during 2014 the butter/SMP powder stream has been more valuable than WMP. Processors aiming to maximize their margins and the value of the milk have been leaning toward the butter/SMP stream which has now shown up in the export statistics. For the YTD August 2014 total AMF and butter exports are 17% ahead of the previous year. Increased butter exports are responsible for all the increase. It is thought that this pace won't continue right through until the end of the year because part of the increase in exports involves a run down in inventory levels which will have already happened.

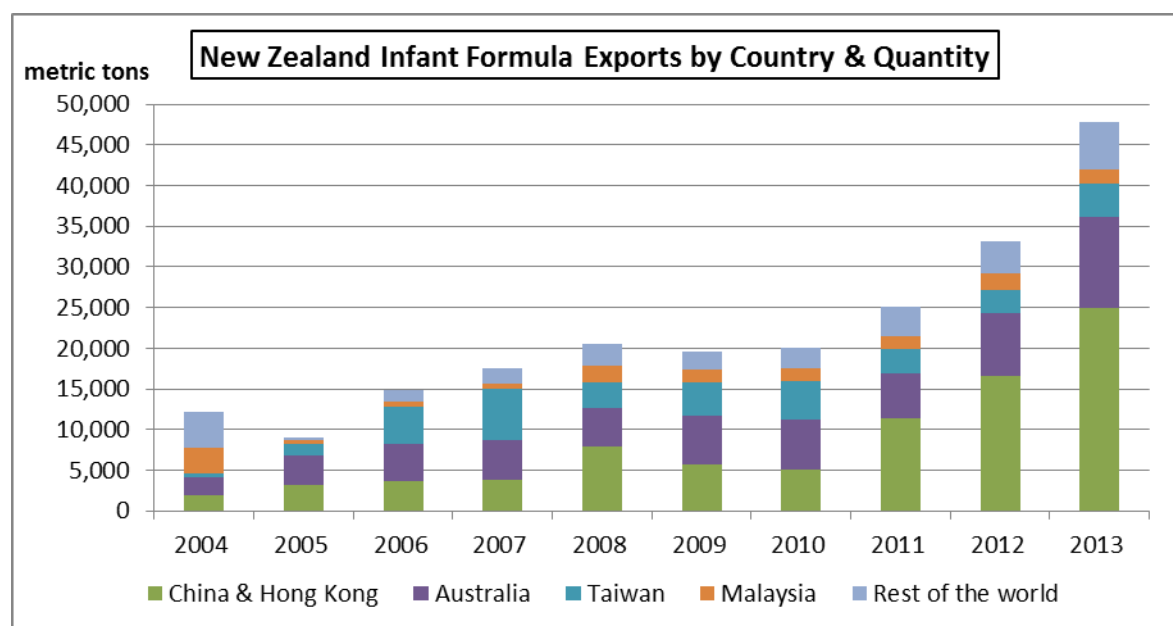
It is forecast for 2015 butter and AMF exports will consolidate somewhat and be reduced by 3% from 2014 to sit at 539,000 MT butter equivalents. Competition from other exporters all around the globe will be tougher in 2015 when they start to push harder for sales of the surpluses of fat products that are likely to be in the system by then.

New Zealand Export Statistics For Butter, Anhydrous MilkFat, & Dairy Spreads							
Year To Date: January - August							
Partner Country	Quantity in Metric Tons Product Weight Shipped			% Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
China	28871	23889	49496	9.68	8.41	14.92	107.19
Egypt	27267	26772	25604	9.14	9.43	7.72	- 4.36
Iran	22724	11094	23799	7.62	3.91	7.17	114.53
Saudi Arabia	14078	14300	15875	4.72	5.04	4.78	11.02
Philippines	10452	9299	15226	3.50	3.27	4.59	63.74
Azerbaijan	12814	8700	15183	4.29	3.06	4.58	74.51
Algeria	7848	8206	13855	2.63	2.89	4.18	68.83
Russia	13288	17605	13404	4.45	6.20	4.04	- 23.86
Belgium	13998	23758	12210	4.69	8.37	3.68	- 48.61
Indonesia	6647	9475	11064	2.23	3.34	3.33	16.77
United States	13562	12681	10882	4.55	4.47	3.28	- 14.19

Australia	14218	10817	10419	4.77	3.81	3.14	- 3.68
Rest of the World	112591	107342	114830	37.74	37.81	34.60	6.98
World Total	298359	283935	331843	100.00	100.00	100.00	16.87

Source: GTA

Infant Milk Formula (IMF)



Source: GTA

Infant milk formula (IMF) has gone from the poster child for how to add value to New Zealand dairy products to the problem child. Exports have plunged 38% for the YTD August 2014 compared to 2013. Principally this has been caused by Fonterra's Whey Protein Concentrate 80 (WPC80) contamination issue which surfaced August 2013 (see [NZ Gain Report NZ1314 September 2013](#) for more details). Even though subsequently it was shown that the contamination was a non-toxic bacterium the product recall and the publicity looks to have tarred all IMF manufacturers in New Zealand and has affected sales in all the main markets.

New Zealand Export Statistics For Infant Milk Formula				
Year To Date: January - August				
Partner Country	Quantity in Metric Tons			% Change 2014/2013
	2012	2013	2014	
China	6788	13141	5759	- 56.18
Australia	4464	7898	5719	- 27.59

Hong Kong	3293	5580	2574	- 53.87
Taiwan	1857	2798	1720	- 38.54
Malaysia	1133	1185	876	- 26.10
Russia	359	553	661	19.59
Thailand	235	452	633	39.96
Korea South	598	549	606	10.37
Syria	4	252	551	118.79
Algeria	74	0	462	0.00
Rest of World	1014	2361	1950	-17.41
World Total	19820	34769	21511	- 38.13

Source: GTA

In parallel to these developments Chinese food safety authorities have been working through a far reaching plan to rationalize and control the IMF market in China. Not only have authorities rationalized the production and marketing of domestic IMF products this rationalization and suites of new regulations have extended to all countries whose own dairy processors wish to manufacture and export IMF to China.

There has been shakeout in New Zealand. From approximately 15 manufacturers who produced over 100 brands mainly on contract this has been cut back to nine manufacturers and most of the brands produced on contract have disappeared. The Chinese authorities are looking for integrated businesses that own or control the supply chain from the intake of milk, through the manufacture of IMF, to the logistics and distribution in China. The main dairy processors involved with their own branded IMF products: Fonterra, Westland, and Synlait are now registered for the Chinese market.

Imports

Lactose

Used to standardize WMP production, lactose imports have grown considerably during 2014. At 68,768 MT for YTD August 2014 they are 54% ahead of the previous year. Sixty eight percent of the total volume was sourced from the U.S.

Trade Policy - Market Access Issues

Sri Lanka

Reportedly in late September/early October Sri Lanka's health ministry suspended the distribution and sale of the three batches of Fonterra's Anchor milk powder. The suspension followed a complaint of food poisoning in some children in the southern village of Girandurukotte, 224 kilometers from the capital Colombo. Seventy six tons of milk powder was affected which a Fonterra official said their own testing had shown to be safe to consume.

In an incident dating back to August 2013 130 MT of powder was destroyed after it was held in storage beyond the food safety use-by date. There was a dispute over testing results which Sri Lankan officials said showed traces of Dicyandiamide (DCD) was present in the powder.